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Supreme Court, U.S.
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In The

Supreme Court of the United States

October Term 1986

No. _____

THE ALLEN GROUP, INC.
and ORION INDUSTRIES, INC.

Petitioners,

vs.

ROY A. FRICKE and
ELCO INTERNATIONAL, LTD.

Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

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QUESTIONS PRESENTED

(1) Did the gross errors of fact made by the U.S. Court of Appeals for the Federal Circuit in this case deny Petitioners their right to a fair review of the trial court's decision so as to require an exercise of this Court's power of supervision?

(2) Should the U.S. Court of Appeals for the Federal Circuit be directed to apply the "lost profits" law of this Court in patent infringement actions, or shall it be permitted to continue developing its own "lost profits" law?

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PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

Petitioners pray that a writ of certiorari issue to review the Judgment of the United States Court of Appeals for the Federal Circuit entered August 6, 1985, affirming the Judgment of the United States District Court for the Central District of California.

OPINIONS BELOW

The Amended Judgment of the District Court was not reported but appears at Appendix 1 hereto. The Opinion of the United States Court of Appeals for the Federal Circuit was not recommended for publication but appears at Appendix 2 hereto. The Order denying Petitioners' Petition for Rehearing entered December 2,

1985 appears at Appendix 3 hereto. The Judgment of the United States Court of Appeals for the Federal Circuit issued as a mandate January 10, 1986 appears at Appendix 4 hereto. Petitioners' Petition for Rehearing appears at Appendix 5 hereto.

JURISDICTION

The jurisdiction of the District Court was invoked under the Patent Laws of the United States U.S. Code, Title 35.

The petition denying Petitioners' Petition for Rehearing was entered December 2, 1985, and the Petition for a Writ of Certiorari was filed within 90 days of that date.

The jurisdiction of this Court is invoked under 28 U.S.C. §1254(1).

STATEMENT OF THE CASE

This case began as a normal patent infringement action with Plaintiffs charging Petitioners with the infringement of Patent Nos. 4,062,155 and 4,202,141 directed to two completely different types of spark plug cleaners. Plaintiffs demanded a jury trial and, as usual in jury cases, the jury held the two patents valid and infringed. The District Court adopted the findings and conclusions of the Plaintiffs to affirm the jury's holding of validity and infringement. In assessing damages, the jury was given an opportunity to use Plaintiffs' "lost profits" or a "reasonable royalty" as the measure of damages. The jury applied the "lost profits" measure of damages and this verdict was not disturbed by the District Court.

At the trial, Defendants-Petitioners established that, in addition to Petitioners, several other manufacturers were successfully selling spark plug cleaners in competition with Plaintiffs and Defendants. Plaintiffs made no attempt to dispute such evidence. To the contrary, Plaintiffs' licensee of the '155 patent admitted that such licensee lost sales of the patented spark plug cleaners to spark plug cleaner suppliers other than Petitioners. The jury selected Petitioners' "lost profits" as the measure of damages despite the undisputed evidence that Plaintiffs could not possibly have made all of the sales made by Defendants.

The CAFC's Opinion affirmed the use of lost profits as a measure of damages. In such Opinion, the CAFC committed three incredible factual errors, namely:

(1) The panel referred solely to the '155 patent and failed to even mention the '141 patent, overlooking the point that two patents were in suit were directed to completely different types of spark plug cleaners sold by different entities, thereby generating different sets of facts relating to the "lost profits" issue;

(2) The panel ignored the critical fact that Plaintiffs made no attempt whatsoever to prove that Plaintiffs would have sold the infringing spark plug cleaners sold by Petitioners so as to entitle Plaintiffs to "lost profits"; and

(3) The panel completely misapprehended the identity of the parties. Such misapprehension as to the identity of the parties caused the panel to place the burden of proof with respect to establishing the elements of "lost profits" on Petitioners, rather than on Plaintiffs.

Specifically, the CAFC panel held Petitioners argued Plaintiffs had to prove there were no "acceptable substitute" spark plug cleaners on the market. In fact, it was Plaintiffs who argued that it was Petitioners' burden to establish there were "acceptable substitutes." This factual confusion as to which party had the burden of proof on the "lost profits" issue doomed Petitioners chances of obtaining the correct legal measure of damages from the CAFC.

Petitioners provided the CAFC with an opportunity to correct its careless handling of the facts by means of a Petition for Rehearing (Appendix 5). This petition specifically pointed out where the panel went wrong and exactly how such error prejudiced Petitioners, e.g. forcing Petitioners to pay "lost profit" damages of $625,000 vis a vis "reasonable royalty"

damages of $130,000. The CAFC, however, ignored such opportunity and entered an Order Denying such Petition (Appendix 3) which merely inserted the number of the originally overlooked '141 patent in the Opinion adjacent references to the '155 patent. Such insertion further compounded the factual errors of the original Opinion, since the facts applicable to the '155 patent were completely different than those applicable to the '141 patent!

REASONS FOR GRANTING THE WRIT

A. Petitioners Were Denied Their Day In Court

Clearly, the CAFC panel failed to devote to this case the amount of time necessary to produce a competent opinion. It seems clear that two members of the three judge panel failed to carefully

review the briefs and the obviously flawed opinion of the opinion's author. Moreover, it is inconceivable that these two members reviewed Petitioners' Petition For Rehearing.

Petitioners contend that the CAFC panel's mishandling of the critical facts in this case clearly constituted such a radical departure from the accepted and usual course of judicial proceedings in an Appellate Court as to call for an exercise of this Court's power of supervision pursuant to Rule 17.1(a). Surely, the CAFC owed Petitioners a duty to exercise ordinary due care in making its decision in this case. Instead, the CAFC so completely miscontrued the facts that, inter alia, it placed the burden of proof on the wrong party. The CAFC obviously failed to carry out its duty to Petitioners, and Petitioners were therefore

denied their day in court.

If the writ is granted, the undisputed facts will establish that Petitioners should be required to pay damages based upon a "reasonable royalty" rather than Petitioners' "lost profits." The difference amounts to about $500,000.

Petitioners only hope for a fair hearing rests on this Court. While it is rare that this Court grants certiorari solely because of a gross miscarriage of justice, precedent therefor is found in Thompson v. City of Louisville, 357 U.S. 348 and Washington v. United States, 357 U.S. 348.

A grant of certiorari would also be of great value to the judicial system. It can be assumed that the erroneous opinion rendered in this case is not the only one which has been swept under the "Not For Publication" rug. Unless the

CAFC is directed by this Court to improve the quality of its opinions, the CAFC will soon lose its reputation as a responsible appellate body. Certiorari is required.

B. This Court Should Direct The CAFC To Apply The "Lost Profits" Law of This Court

Petitioners also contend this Court should grant certiorari in order to direct the CAFC to follow the applicable "lost profits" law developed by this Court, rather than permit the CAFC to continue the development of its own confusing body of "lost profits" law.

Before the CAFC was created, this Court consistently held that a "lost profits" measure of damages was not available unless the patent owner could prove that he would have made the sales made by the infringer had the infringer not in-

fringed. Thus, in Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 507, 141 USPQ 681, 694 (1964), this Court held with respect to "lost profits":

> "They have been said to constitute the difference between his (the patent owner's) pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred." Yale Lock v. Sargent, 117 U.S. 536. "The question to be asked in determining damages is 'how much had the Patent Holder and Licensee suffered by the infringement' and that question is primarily: Had the infringer not infringed, what would the Patent Holder-Licensee have made?" (Emphasis

added), citing with approval, the following language in Livesay Window v. Livesay Industries, 251 F.2d 469 (CA 5 1969), as properly setting forth the criteria for establishing lost profits in a patent infringement case.

"If in all reasonable probability, the Patent Owner would have made the sales which the Infringer has made, what the Patent Owner in reasonable probability would have netted from the sales denied to him is the measure of his loss, and the Infringer is liable for that." (Emphasis added)

During its early existence, the CAFC properly applied the "lost profits" rule of the Supreme Court, as for example

in Lam, Inc. v. Johns Manville, 718 F.2d 1056 (Fed. Cir. 1983) wherein the CAFC cited the language quoted hereinabove from Aro and Livesay. After Lam, however, the CAFC went off on a frolic of its own when dealing with "lost profits" in patent cases, and began to develop its own body of "lost profits" law. The CAFC did not base such body of law on the "lost profits" law developed over a period of many years by this Court, but instead relied upon a Sixth Circuit case, Panduit Corp. v. Stahlin Bros. FibreWorks Inc., 575 F.2d 1152, 1156.

The first CAFC opinion relying upon Panduit appears to be Central Soya v. Hormel, 723 F.2d 1573, 1578 (December 1983) where a four part "lost profits" test applied by the Panduit opinion was adopted, as follows:

> "Plaintiff [Central Soya] must present affirmative proof of (1) demand for the patented product in the marketplace, (2) Plaintiff's production and marketing capacity to meet the demand, (3) the absence of acceptable non-infringing substitutes and (4) detailed computations on the loss of profits."

The CAFC panel that heard Central Soya, however, departed from the Panduit test to the extent that although Plaintiff had the burden of proof of proving whether or not there was an acceptable substitute on the market, Plaintiff was excused from proving that the acceptable substitutes infringed the patent in suit.

In its very next reported "lost profits" case, Gryomat Corp. v. Champion Spark Plug Co., 735 F.2d 549 (May 1984), the CAFC did not excuse the Plaintiff from having the acceptable substitutes infringe. Instead, it affirmed the district court's use of the four part Panduit test, including the requirement that the acceptable substitutes had to infringe the patent.

It will be apparent that the requirement of proving the acceptable substitutes infringed necessitated the trial adjudication of a separate issue not required when the "lost profits" law of this Court was followed, i.e. whether or not the substitutes fell within the scope of claims of the patent being litigated.

Accordingly, at this point in time, the CAFC had applied the "lost profits" law of this Court in Lam, had applied

the four part Panduit test in Central Soya, without the "infringement" requirement, and had applied the full Panduit test, including the "infringement" requirement thereof in Gyromat.

The CAFC then compounded the confusion caused by its first three "lost profits" cases by the opinion of its panel in Bio-Rad Laboratories v. Nicolet Instrument Corp., 739 F.2d 604 (July 1984). In Bio-Rad, the CAFC panel held that although it "has accepted the Panduit standard as a permissible way to establish entitlement to lost profits, we have not made that standard the exclusive one for determining entitlement to lost profits." But, the CAFC in Bio-Rad provided no guidelines as to what test it might apply in future decisions to establish "lost profits" as a measure of damages. Accordingly, as of Bio-Rad neither the District Courts nor

the Patent Bar had any idea as to what test would be used by the next CAFC panel to deal with the "lost profits" issue.

The post Bio-Rad CAFC "lost profits" decisions have not shed any further light on the problem. For example, in Weinar v. Rollform Inc., 744 F.2d 797, 808 (Sept. 1984), the CAFC panel held that the four Panduit "elements are not an absolute requirement in every case." The panel did not, however, indicate what requirements had to be met to justify a "lost profits" award.

In Paper Converting Machine Co. v. Magna Graphics Corp., 745 F.2d 11, Sept. 28, 1985, the CAFC panel at page 21 held that to justify a "lost profits" award, the "patent owner can present affirmative evidence of the demand for his patent in the marketplace, the absence of acceptable noninfringing substitutes, his production

and marketing capacity to meet the demand, and computations on the loss of profits." (Emphasis added) Such panel, however, did not assure the patent owner that if he did meet the four-part Panduit case he would be awarded his "lost profits."

In King v. Otari, 767 F.2d 853, June 1985, a footnote at page 864 states that the Panduit test has been approved by the CAFC as "one method of calculating lost profits," but "Panduit is, however, not the exclusive test." Again, as in Weiner, the CAFC failed to shed any light on just what test it would approve.

The most recent reported CAFC "lost profits" case appears to be Yarway Corp. v. Eur-Control U.S.A. Inc., 775 F.2d 268, 275, where the CAFC panel reaffirmed its reliance on the Panduit four-part test, including the requirement that the patent owner must establish the absence of

acceptable noninfringing substitutes.

It will be apparent that the CAFC's lack of direction has frustrated the District Courts and the Patent Bar. Such frustration did not exist when the courts applied the "lost profits" law developed by this Court. This Court, in determining entitlement to "lost profits", made no requirement that either the Plaintiff or the Defendant prove there were acceptable infringing or non-infringing substitutes for Plaintiffs' patented product on the market. This Court required only that the patent owner prove he would have made the sales made by the infringer had the infringer not infringed. The facts necessary to effect such proof were comparatively simple and straightforward.

The present consternation among members of the Judiciary and the Patent Bar should be promptly resolved by this Court.

A Writ of Certiorari in this case would provide the means for accomplishing this result.

Granting the Writ would also result in a reversal of the CAFC's erroneous ruling against Petitioners. As noted above, it was undisputed that Plaintiffs could not have sold the spark plug cleaners sold by Petitioners because several other successful competitors siphoned sales from both Plaintiffs and Petitioners. Therefore, Plaintiffs were not entitled to their "lost profits" under the applicable law developed by this Court. Petitioners would be required to pay "reasonable royalties" as a measure of damages rather than Plaintiffs' "lost profits."

For the reasons set forth hereinabove, this Petition for Certiorari should be granted.

Dated: February 24, 1986

Respectfully submitted,

ORIGINAL SIGNED
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APPENDIX

APPENDIX 1

IN THE UNITED STATES DISTRICT COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA

WELLS MFG. CORP., a Wisconsin corporation, (original Plaintiff), ROY A. FRICKE, an individual, and ELCO INTERNATIONAL, LTD., an Illinois corporation, (substituted Plaintiffs), v. THE ALLEN GROUP, INC., a Delaware corporation; ORION INDUSTRIES, INC., a Delaware corporation, Defendants.	CV No. 79 04144 WMB
ROY A. FRICKE, an individual and ELCO INTERNATIONAL, LTD., an Illinois corporation, Plaintiffs, v. SEARS, ROEBUCK & CO., a New York corporation, Defendant.	CV No. 80 3903 WMB

SECOND AMENDED JUDGMENT

These consolidated actions having come on for trial before the Court and a jury, the Honorable William Matthew Bryne, District Judge, presiding, and the issues having been duly tried, the jury having duly rendered its verdicts and the Court having issued its Findings of Fact and Conclusions of Law dated September 2, 1983; and, having denied Defendants' Motions for New Trial, for Judgment Notwithstanding the Verdict, for Additional Findings of Fact and To Stay Execution of Injunction and having granted Defendants' Motions to Retax Costs and to Stay Execution of Money Judgment for 30 days.

IT IS ORDERED AND ADJUDGED:

1. That Plaintiffs' U.S. Patent No. 4,062,155 is by declaratory Judgment deemed valid and infringed by remaining Defendants THE ALLEN GROUP, INC.

and ORION INDUSTRIES (jointly doing business as Hollywood Accessories), as well as SEARS, ROEBUCK & CO.

2. That Plaintiffs' U.S. Patent No. 4,202,141 is by declaratory Judgment deemed valid and infringed by Defendants THE ALLEN GROUP, INC. and ORION INDUSTRIES (jointly doing business as Hollywood Accessories).

3. That Defendants THE ALLEN GROUP, INC. and ORION INDUSTRIES (jointly doing business as Hollywood Accessories), and SEARS, ROEBUCK & CO., their officers, employees, agents, representatives and assigns be and hereby are permanently enjoined from further infringement of U.S. Patent No. 4,062,155.

4. That Defendants THE ALLEN GROUP, INC. and ORION INDUSTRIES (jointly doing business as Hollywood Accessories), their officers, employees, agents, repre-

sentatives and assigns be and hereby are permanently enjoined from further infringement of U.S. Patent No. 4,202,141.

5. That Plaintiffs ROY A. FRICKE and ELCO INTERNATIONAL LTD. recover from Defendants THE ALLEN GROUP, INC. and ORION INDUSTRIES (jointly doing business as Hollywood Accessories) the following sums for infringement of said respective patents, together with Plaintiffs' costs of action and interest thereon at such percentage proscribed and provided by law, as follows:

(a) That Plaintiffs ROY A. FRICKE and ELCO INTERNATIONAL, LTD. recover from Defendants ORION INDUSTRIES, INC. and THE ALLEN GROUP, INC. (conducting business under the name of Hollywood Accessories) the sum of Four Hundred and Fifth Nine Thousand, Nine Hundred and Ninety Four Dollars ($459,994.00) for in-

fringement of Patent No. 4,062,155; and additionally, the sum ($11,263.00) for infringement of Patent No. 4,202,141, for a total sum of four Hundred and Seventy One Thousand, Two Hundred and Fifth Seven Dollars ($471,257.00);

(B) That Plaintiffs ROY A. FRICKE and ELCO INTERNATIONAL, LTD. recover their costs in the sum of $3,618.00; and

(C) That Plaintiffs ROY A. FRICKE and ELCO INTERNATIONAL, LTD. recover prejudgment interest in the sum of $156,499.63 from Defendants ORION INDUSTRIES, INC. and THE ALLEN GROUP, INC. (conducting business under the name of Hollywood Accessories).

6. That Defendants' 30 day stay of execution of money judgment, upon appeal, will be continued upon posting of bond in an amount of $500,000 until entry

of Judgment on Final Appeal.

SO ORDERED this 20th day of November, 1984.

_____
William Matthew Byrne, Jr.
U.S. District Court Judge

APPENDIX 2

Note: This opinion will not be published in a printed volume because it does not add significantly to the body of law and is not of widespread legal interest. It is a public record. It is not citable as precedent. The decision will appear in tables published periodically.

United States Court of Appeals

for the Federal Circuit

THE ALLEN GROUP, INC., and ORION INDUSTRIES, INC.,	)	
Appellants,	)	
v.	)	Appeal No. 85-904
ROY A. FRICKE, and ELCO INTERNATIONAL, INC.,	)	
Appellees.	)	

DECIDED: August 6, 1985

Before RICH, KASHIWA, and BENNETT, Circuit Judges.

KASHIWA, Circuit Judge.

DECISION

The Allen Group, Inc. and Orion Industries, Inc. (The Allen Group) appeal from the final judgment of the United States District Court for the Central District of California, CV No. 79-4144-WMB (Findings of Fact and Conclusions of Law - 2 September 1983; Amended Judgment - 10 November 1983; Second Amended Judgment - 20 November 1984), in which the court held, inter alia, that claims 2, 3, 6, 7 and 8 of the U.S. Patent No. 4,062,155 ('155 patent) were not invalid and were infringed, and awarded a sum certain to Roy A. Fricke and Elco International, Inc. (Fricke) as damages on the basis of lost profits. We affirm.

OPINION

The Allen Group raises two issues on appeal: (1) whether the district court erred in concluding that the claims of the '155 patent in issue were not invalid under 35 U.S.C. §103 inasmuch as relevant factual findings were clearly erroneous; and (2) whether the district court abused its discretion by denying a motion for a new trial on the issue of whether the proper measure of damages was a reasonable royalty rather than lost profits.

The Allen Group, in attempting to fulfill its burden of proof[1/] to establish the invalidity of the '155 patent under §103 by clear and convincing evidence, see Stratoflex, Inc. v. Aeroquip Corp., 713 F.2d 1530, 1534, 218 USPQ 871, 875 (Fed. Cir. 1983), relief primarily upon three pieces of prior art admittedly

not considered by the PTO: (1) an unpatented spark plug cleaner commercialized by Fricke (Exhibit 200); (2) U.S. Patent No. 3,704,552 (the Beaver-Zakarian patent); and (3) U.S. Patent No. 3,034,262 (the Pawlson patent). The court found this prior art was not more pertinent than the prior art cited during prosecution of the application for the '155 patent. The arguments by The Allen Group have not persuaded us that this finding is clearly erroneous.

While we agree with The Allen Group that the Exhibit 200 spark plug cleaner is relevant art and should have been cited to the PTO, 37 CFR § 1.56, the failure to cite Exhibit 200 is not of such moment as to require reversal inasmuch as Exhibit 200 was not more pertinent than the cited priort art. United States Patent No. 3,868,790 (Fricke '790), cited during prosecution, taught a hopper-tube arrangement

substantially similar to the hopper-tube arrangement of Exhibit 200. Exhibit 200 also taught the use of a flexible diaphragm to engage the spark plug, a teaching not found in Fricke '790. The use of flexible diaphragms to engage the spark plug, however, was disclosed in U.S. Patent No. 2,554,858 (Gogel) and British Patent No. 773,061 (Bosch), both cited during prosecution.

The Beaver-Zakarian patent teaches a flexible engagement means for engaging the spark plug, but as noted above, teachings as to this particular claim limitation were before the PTO. The Beaver-Zakarian patent also teaches that particulate matter that has impacted the spark plug is automatically recirculated within the confines of the body of the device such that it reimpacts the spark plug without the necessity of periodically

inverting the spark plug cleaning unit. An automatic particulate recirculation means or a functional description of automatic particulate recirculation, however, is not a claim limitation of the '155 patent. Moreover, the structural claim limitations of the '155 patent directed to the means for recirculating particulate to the impeller differ substantially from the structural limitations of the Beaver-Zakarian patent.

We agree with The Allen Group that is is anomalous of Fricke to argue that the Pawlson patent is not relevant art. The subject matter of U.S. Patent 3,008,274 (Welter patent), cited against Fricke during prosecution, is classified in Class 51 as is the subject matter of the Pawlson patent. The teaching of the Pawlson patent that spent particulate is recirculated from a container-type com-

partment, however, is similarly taught by the Welter patent. Moreover, it is apparent that the Welter patent is more pertinent prior art than the Pawlson patent. Not only does Welter teach structural means for automatic recirculation, but the Welter device is a self-contained system, i.e., particulate matter does not travel outside the device. In contradistinction, the particulate matter in the Pawlson device passes outside of the devide itself such that it is more probable than not that some particulate matter is continually lost during functioning of the Pawlson device.

The Allen Group's arguments have not persuaded us that the trial court's findings as to the scope and content of the prior art, i.e., Exhibit 200, the Beaver-Zakarian patent and the Pawlson patent, or the differences between this prior art and

the claimed subject matter, were clearly erroneous.

Relying on our decision in Lindemann Maschinenfabrik GMBH v. American Hoist & Derrick Co., 730 F.2d 1452, 221 USPQ 481 (Fed. Cir. 1984), The Allen Group argues that the district court erred by adopting, before trial, the clearly erroneous proposed findings of fact submitted by Fricke with respect to the scope and content of the prior art, the differences between the prior art and the claimed subject matter, and the objective indicia of nonobviousness. As best we can determine, by reviewing the Docket Sheet for this case, Fricke's Proposed Findings of Facts and Conclusions of Law, adopted practically in toto by the district court, were not submitted prior to the trial by jury. The court requested the parties submit these proposed findings and conclusion

on 22 June 1982, after the jury had returned and special interrogatories were filed. Fricke's submissions were served on The Allen Group on 9 July 1981. Thus, on this record, we cannot say that it was error for the district court to adopt the findings and conclusions submitted by Fricke. Moreover, Lindemann does not make such a practice per se error. It merely cautions the reviewing court to ensure that the record contains sufficient supporting evidence for factual findings where the factual findings are submitted before trial, and are substantially adopted by the court as its own findings.

The district court analyzed, and made findings with respect to, the factual evidence proffered as objective indicia of nonobviousness, i.e., commercial success, long-felt need, copying, and considered this evidence prior to rendering its legal

conclusion with respect to the validity of the '155 patent under §103. W. L. Gore & Associates, Inc. v. Garlock, Inc., 721 F.2d 1540, 1555, 220 USPQ 303, 314 (Fed. Cir. 1983). While automatic recycling of particulate is not disclosed or claimed in the '155 patent, it is nonetheless an inherent functional feature of the '155 spark plug cleaners due to the particular structural limitations claimed therein. A nexus is required between the merits of the claimed invention and the evidence offered if this evidence is to be given substantial weight in reaching a conclusion as to obviousness. Stratoflex, 713 F.2d t 1539, 218 USPQ at 879. Thus, it was not error to consider the automtic particulate circulation aspect of the '155 spark plug cleaner in evaluating the objective evidence. We have reviewed the evidence, as well as the argument of The Allen Group,

but cannot say we are persuaded that the district court's factual findings with respect to the objective indicia of obviousness are clearly erroneous.

Under these circumstances, considering all the evidence of record relating to the validity issue, Id., 218 USPQ at 879, we cannot say that the district court committed error in holding that The Allen Group had failed to establish the invalidity of the '155 patent by clear and convincing evidence.

The denial of The Allen Group's motion for a new trial is reviewable in connection with an appeal from the judgment entered on the verdict, and our review of this denial is conducted under the abuse of discretion standard. Railroad dynamics, Inc. v. A. Stucki Co., 727 F.2d 1506, 1512, 220 USPQ 929, 935 (Fed. Cir. 1984).

The Allen Group argues that the district court abused its discretion in denying its request for a new trial because: (1) there was insufficient evidence that Fricke could have made the sales which had been made by the infringers; and (2) there was insufficient evidence to establish the net profit figures found by the jury.

To obtain lost profits as the measure of damages, Fricke must prove that it would have made the sales but for the infringing activity. Fricke need only establish that it was reasonably probable that it would have made the sales to meet this burden of proof. Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp., 739 F.2d 604, 616, 222 USPQ 654, 663 (Fed. Cir. 1984). Our review of the record leads us to hold that there was sufficient evidence to establish with reasonable probability that Fricke could have manu-

factured and sold quantities of the '155 spark plug cleaner to cover the infringing sales, to wit, there was sufficient evidence on the availability of required components, manufacturing space, raw manufacturing materials, and skilled labor.

The Allen Group has argued further that Fricke has not proven that there were no acceptable substitute spark plug cleaners available, i.e., no competitors for the infringing sales, relying on this court's implicit approval in Gyromat Corp. v. Champion Spark Plug Co., 735 F.2d 549, 552, 222 USPQ 4, 6 (Fed. Cir. 1984), of the four-part test enunciated in Panduit Corp. Stahlrin Brothers Fiber Works, Inc., 575 F.2d 1152, 197 USPQ 726 (6th Cir. 1978), and for this reason lost profits is not the appropriate measure of damages.[2/] But, in Bio-Rad Laboratories this court stated that although the

Panduit standard is acceptable, it is not the exclusive standard in determining entitlement to lost profits as the measure of damages. 739 F.2d at 616 n.*, 222 USPQ at 663 n.*.

The district court, in instructing the jury, required Fricke to establish that it "would have sold the infringer's customers the potential product if the infringer had not been in the business" and that Fricke "had the facility or ability to obtain production and delivery of the quantity of infringed [sic] goods sold by the defendants." There was no explicit burden of proof placed on Fricke to establish the lack of acceptable substitute spark plug cleaners on the market. The Docket Sheet of this case indicates that the court conferred with both parties on the instructions to be presented to the jury on the damages issue.

The Allen Group did not take exception to these instructions to be presented to the jury on the damages issue. Therefore, it ill behooves The Allen Group at this late date to argue that Fricke was explicitly required to establish the lack of acceptable substitutes, especially when The Allen Group's actions contributed to the particular result attained.

A patentee need not prove the monetary amount of lost damages with unerring precision, Bio-Rad Laboratories, 739 F.2d at 616, 222 USPQ at 664, and insubstantial difficulties in precision must be resolved against the infringer. Gyromat, 735 F.2d at 554-55, 22 USPQ at 8. Jury damage awards will not be overturned or modified on appeal unless the product of passion or prejudice. Weinar v. Rollform,

Inc., 744 F.2d 797, 808, 223 USPQ 369, 375 (Fed. Cir. 1984).

Our review of the record shows that sufficient evidence was presented for the jury's consideration with respect to a reasonable selling price for '155 spark plug cleaners, by consideration of prior sales by both Fricke's licensee and the infringers, and the optimal profit recouped by Fricke's licensee. The special interrogatories submitted to the jury only required the jury to return findings on the lost profit per unit at the total lost profit with respect to the '155 spark plug cleaners. The jury was not required to return findings as to selling price or deductible expenses. The Allen Group did not object to either the instructions to the jury on the determination of damages or the form of the special interrogatories. We will not say that the jury's findings

were clearly erroneous or not supported by the evidence.

Under the totality of these circumstances, we cannot say that the district court abused its discretion in denying The Allen Group's motion for a new trial.

1/ To reiterate a fundamental proposition that this court has consistently stressed, the burden of initial production of evidence and the ultimate burden of persuasion always rest on the party asserting patent invalidity, i.e., burden of overcoming the presumption of validity that attaches to an issued patent. The presumption of validity is never "strengthened" or "weakened" by the introduction of less pertinent or more pertinent, respectively, prior art not considered by the PTO. The burden may be

more or less easily satisfied by the introduction of prior art which is more or less relevant, espectively, than that considered by the PTO. See, e.g., Lindemann Maschinenfabrik GMBH v. American Hoist & Derrick Co., 730 F.2d 1452, 221 USPQ 481 (Fed. Cir. 1984).

2/ Fricke has argued that sufficient evidence was presented to establish that there were no acceptable, non-infringing substitutes available. We point out that this court, in Central Soya Co. v. Geo A. Hormel & Co., 735 F.2d 1573, 1579, 220 USPQ 490, 494 (Fed. Cir. 1983), stated that it was only necessary under a Panduit-type standard to establish that there was no acceptable substitute on the market, that it would be redundant to require the patentee to establish in addition that the substitute was an infringing or non-infringing product.

APPENDIX 3

Note: This opinion will not be published in a printed volume because it does not add significantly to the body of law and is not of widespread legal interest. It is a public record. It is not citable as precedent. The decision will appear in tables published priodically.

United States Court of Appeals

for the Federal Circuit

THE ALLEN GROUP, INC., and ORION INDUSTRIES, INC.,	)	
Appellants,	)	
v.	)	Appeal No. 85-904
ROY A. FRICKE, and ELCO INTERNATIONAL, INC.,	)	
Appellees.	)	

ORDER

Appellants, The Allen Group, Inc., et al., have filed a petition for rehearing. After careful consideration of their contentions, we hereby grant their

petition for the limited purpose of modifying our unpublished opinion dated 6 August 1985.

Discussion

To clarify our decision in the above-noted unpublished opinion, we make the following amendments to that opinion:

page 9, line 12, after "for" insert --the '141' and--;

page 9, line 13, change "both" to --Fricke,--;

page 9, line 17, before "'155" insert --'141 and--.

Except as noted supra, the Appellants' petition for rehearing is denied.

FOR THE COURT

_____
Shiro Kashiwa
Circuit Judge

2 December 1985

APPENDIX 4

United States Court of Appeals
for the Federal Circuit

ROY A. FRICKE, and ELCO INTERNATIONAL, INC.

Appellees,

No. 85-904

79-04144 WMB
80-3903 WMB

v.

THE ALLEN GROUP, INC., and ORION INDUSTRIES, INC.,

Appellants.

JUDGMENT

ON APPEAL from the U.S. District Court for the Central District of California this CAUSE having been heard and considered, it is ORDERED and ADJUDGED: Affirmed.

ENTERED BY ORDER OF
THE COURT

George E. Hutchinson,
Clerk

Dated: August 6, 1985
ISSUED AS A MANDATE: JAN. 10, 1986
COSTS: Against, Appellants, The Allen Group, Inc., & Orion Industries, Inc.
PRINTING--------$317.11
TOTAL----------$317.11

APPENDIX 5

PETITION FOR REHEARING OF APPELLANTS
(F.R.A.P. Rule 40)

Appellants' petition is directed solely to the portion of this Court's opinion upholding the trial court's denial of Petitioners' motion for a partial new trial on the issue of damages awarded for infringement of the '155 and the '141 patents.

It is the position of Petitioners, The Allen Group Inc. and Orion Industries Inc., that, in its opinion, this Court:

1) Having failed to even mention the '141 patent in its written opinion, overlooked the fact that Petitioners' motion for new trial was directed to both the '155 patent and the '141 patent;

2) Overlooked the fact that, with respect to the '155 patent, there was absolutely no evidence offered to establish FRICKE and his licensee WELLS would have sold the infringing spark plug cleaners sold by Petitioners absent Petitioners' infringing activity; and

3) Misapprehended the identity of the parties. Specifically, the Court's Opinion states that The Allen Group argued FRICKE had to prove there were no "acceptable substitute" spark plug cleaners on the market, when in fact, it was FRICKE who argued that it was The Allen Group's burden to establish there were acceptable substitutes.

Note: The Court's Opinion and this Petition make several references to the lost profit jury instruction. For the convenience of the Court, a copy of such instruction is appended hereto.

THE OVERLOOKED PATENT NO. 4,202,141

The record is devoid of evidence which would support even an implied finding that the cost of manufacture and sale of the '141 cleaner could be equated with that of the differently constructed '155 cleaner. The uncontroverted evidence before the jury was that:

(1) the designs, tooling and construction of the '141 and '151 cleaners were different (Ex. 22 and 23);

(2) ELCO sold the '141 cleaner only and WELLS the competitive '155 cleaner, only;

(3) Petitioners' Models 733 and 734 infringed the '141 patent, only and Model 728 the '155 patent, only;

(4) The competitors did not infringe the '141 patent.

With respect to the '141 patent, Petitioners appealed from the trial

court's denial of its motion for a new trial, based upon the lack of legally sufficient evidence to support the finding of a $1.47 net lost profit per unit.

In support of its appeal, commencing at page 20 of the REPLY BRIEF OF APPELLANTS, Petitioners pointed out that FRICKE testified he had no idea as to what costs were incurred in selling the '141 spark plug cleaners marketed by his ELCO company. Specifically, he testified as follows:

"Q. CAN YOU COMPUTE YOUR PROFIT FROM THOSE TWO FIGURES?

A. I HAVE A PROFIT OF A DOLLAR NINETY-SEVEN.

Q. THAT'S YOUR PROFIT ON IT?

A. THAT'S MY PROFIT ON IT.

Q. IS THAT GROSS PROFIT OR NET PROFIT?

A. GROSS PROFIT.

Q. DOES THAT INCLUDE ADVERTISING EXPENSES?

A. NO.

Q. PROMOTIONAL EXPENSES?

A. NO.

Q. STORING EXPENSES?

A. NO."

From the above testimony, it is beyond peradventure that FRICKE made no attempt whatsoever to provide the jury with other than his $1.97 gross profit on sales of '141 spark plug cleaners. FRICKE did not introduce evidence of any selling costs to be deducted from his gross profit of $1.97 so as to arrive at a net profit of $1.47 or any other figure. Significantly, the BRIEF OF PLAINTIFFS-APPELLEES did not even attempt to controvert this fact.

The lost profit jury instruction was as follows:

"AFTER CONSIDERING ALL OF THE APPLICABLE COSTS, YOU WILL ARRIVE AT THE TOTAL COST OF MANUFACTURING AND SALE PER UNIT. YOU SHOULD THEN DETERMINE THE PRICE AT WHICH THE UNITS WOULD HAVE SOLD. YOU THEN DEDUCT THE TOTAL COST OF MANUFACTURING AND SALE PER UNIT FROM THE UNIT PRICE AND ARRIVE AT A PROFIT PER UNIT." (Emphasis Added.)

Evidence of the costs to be deducted from the gross sale was a prerequisite to the jury being capable of responding to this instruction. However, FRICKE disclaimed any knowledge of the cost of "manufacturing and sale" of his '141 cleaners and no other witness even attempted to testify on this subject. FRICKE only provided his gross profit figure of $1.97 per unit. There is no evidence of a sales cost of 50 cents to deduct from the gross profit to arrive at

the $1.47 net profit figure which appeared for the first time in the jury verdict. The $1.47 figure was completely speculative and unsupported by any legally sufficient evidence. While a jury's finding of fact should be accorded great weight, a jury can not be considered omniscient. The jury in this case would have to have been omniscient in order to divine FRICKE'S costs without any evidence showing such costs.

It is noted, this Court concluded that sufficient evidence as to FRICKE'S net lost profit for his '155 cleaners could somehow be calculated by the jury based upon, prior sales of '155 cleaners by both FRICKE'S licensee and the infringers, and the optimal profit recouped by FRICKE'S licensee. (Opinion, Page 9). FRICKE did not testify, however, and this Court should not now speculate,

that the net profit on the '141 cleaner could somehow have been calculated by considering the experience of WELLS and the infringers with sales of the '155 cleaner, since neither WELLS nor the infringers had any sales experience whatsoever with FRICKE'S '141 cleaner.

Although the form of the special interrogatories (as noted at page 9 of the Opinion) did not require the jury "to return findings as to selling price or deductible expenses", any legally supportable responses to such interrogatories could only be made in accordance with the lost profit jury instruction. It is axiomatic that a jury can not respond to special interrogatories in a vacuum.

FRICKE MADE NO EFFORT TO PROVE THAT HE AND HIS LICENSEE WELLS WOULD HAVE MADE THE SALES BUT FOR PETITIONERS' INFRINGING ACTIVITY

At page 7 of the Opinion, this Court states:

"To obtain lost profits as the measure of damages, FRICKE must prove that it would have made the sales but for the infringing activity. FRICKE need only establish that it was reasonably probable that it would have made the sales to meet this burden of proof."

In making such statement, this Court obviously overlooked the fact that FRICKE never even attempted to prove it was reasonably probable he and his licensee WELLS would have made the sales made by The Allen Group. To the contrary, as noted at page 44 of the BRIEF OF APPELLANTS, FRICKE'S licensee, WELLS, established

that, while licensed under FRICKE'S '155 patent, it lost sales to competition from several spark plug cleaner suppliers other than Petitioners'. Such suppliers included FRICKE'S ELCO company selling FRICKE'S '141 spark plug cleaners. Specifically, WELLS' Sales Manager testified as follows:

"Q. ALL RIGHT. NOW, WHY DID LKS STOP BUYING FROM YOU?

A. THEY STARTED BUYING FROM ROY FRICKE, A DIFFERENT CONFIGURATION UNIT FOR THREE DOLLARS AND SOME CHANGE, OR TWO NINETY-FIVE. I FORGET WHAT THE DOLLARS WERE.

Q. WELL, IN OTHER WORDS, THEY SUBSTITUTED HIS PRODUCT FOR YOUR PRODUCT; IS THAT RIGHT?

A. YEAH.

Q. SO YOU LOST THE BUSINESS TO FRICKE?

A. YEAH.

Q. IS THIS WHILE YOU WERE UNDER CONTRACT WITH FRICKE?

A. I BELIEVE SO.

Q. NOW MY QUESTION IS: WERE YOU AWARE OF ANY SALES BY OTHER SPARK PLUG CLEANER MANUFACTURERS DURING THIS TIME PERIOD WHICH WOULD ATTRIBUTE TO YOUR LOSS OF SALES?

A. YES, SIR.

Q. WHO WERE YOU AWARE OF?

A. WE WERE AWARE OF BONATRADE; WE WERE AWARE OF HOLLYWOOD; WE WERE AWARE OF FRICKE'S SALES, AND WE WERE AWARE OF THE IMPORT SITUATION.

Q. CAN YOU THINK OF ANY OTHER BASIS?

A. NO. I THINK IT IS JUST THAT THE COMPETITORS GOT IN THERE, THE IMPORT SITUATION OCCURRED, AND THAT DILUTED OUR

BUSINESS ON AN OVERALL BASIS.

Q. WHO DID YOU CONSIDER THE COMPETITORS?

A. BONATRADE, HOLLYWOOD ACCESSORIES, FRICKE, AND ALSO THE IMPORTERS."

From the above testimony, it will be clear that FRICKE'S licensee, WELLS, was competing with HOLLYWOOD and several other suppliers for sales to the same customers. This fact was uncontroverted! FRICKE actually admitted his licensee, WELLS, lost sales to competing spark plug cleaner suppliers other than The Allen Group. Thus, note at page 4 of the BRIEF OF PLAINTIFFS-APPELLEES, the following recognition of this fact:

"The Additional Infringing Devices

Following the lead of Defendants HOLLYWOOD and K-MART with their respective infringing Model 728 [Tr. Ex. 33], and ACE

units [Tr. Ex. 36] from Hong Kong, additional duplicate infringing units entered the market such as the BONAPARTE, ALLISON, PRO-TECH, and CUSTOM ACCESSORIES units, which were acknowledged to be constructed and operate identically to the infringing ACE unit [Tr. Ex. 36] and in all likelihood were made from the same molds. [App. 3 0133 - 3. 0147; App. 6 0079]. Moreover, Plaintiff FRICKE'S uncontroverted testimony was that on or about the middle of June of 1980, he contacted "duplicate" importers and indicated that he would be asserting his patent rights under the "155 patent against them for the sale of these infringing imports."

It was also uncontroverted that Petitioners, like WELLS, lost sales to these competitors. The evidence was that the competitors offered substitute cleaners at a greatly reduced cost. As pointed

out commencing at page 46 of the BRIEF OF APPELLANTS:

"Q. HAVE SALES BY HOLLYWOOD'S CUSTOMERS OR COMPETITORS AFFECTED THE SALES OF SPARK PLUG CLEANERS MADE BY HOLLYWOOD?

A. YES, BEGINNING IN THE PERIOD OF 1978 ON.

Q. WHAT WAS THE EFFECT OF THE SALES BY THE COMPETITORS?

A. THE EFFECT WAS THAT AFTER WE ACHIEVED DISTRIBUTION, INITIAL DISTRIBUTION OF OUR PRODUCT, THEY CAME IN OFFERING SIMILAR PRODUCTS TO THE SAME CUSTOMERS WE WERE SELLING AT A GREATLY REDUCED COST.

BY MR. UTECHT.

Q. DID THAT HAVE AN INFLUENCE OF SALES OF SPARK PLUG CLEANERS BY HOLLYWOOD?

A. YES, IT DID. IT IS DIRECTLY REFLECTED IN THE TESTIMONY I GAVE AND THE SALES FIGURES WITH THE DROP OFF SUB-

STANTIALLY BETWEEN 1979 AND 1980."

The uncontroverted evidence reveals that both FRICKE'S licensee, WELLS, and Petitioners' lost sales to their common price-cutting competitors, who were marketing substitute cleaners on which there was no evidence offered to show either infringement or non-infringement. Unlike the patent holder in Bio Rad Laboratories Inc. v. Nicolet Instrument Corp., 739 F.2d 604, 222 USPQ 654 (Fed. Cir. 1984), FRICKE elected not to put on any evidence to prove that there was a reasonable probability he would have made Petitioners' sales had it not been in the business. There was no evidence, that Petitioners' customers would have selected the WELLS' cleaner to the exclusion of any of the numerous equivalent cleaners, many available at lower prices from Elco, Bonatrade, Allison, Pro-Tech and Custom

Accessories.

THIS COURT MISAPPREHENDED THAT THE ALLEN GROUP ARGUED FRICKE WAS REQUIRED TO ESTABLISH THE LACK OF ACCEPTABLE SUBSTITUTES

At page 8 of this Court's opinion, it is stated that The Allen Group did not take exception to the lost profit jury instructions and therefore should not argue that FRICKE was required to establish the lack of acceptable substitutes. This Court obviously misapprehended the fact that it was FRICKE, not The Allen Group who urged the "acceptable substitutes" issue. FRICKE raised this issue to counter The Allen Group's contention that FRICKE, having acknowledged sales of substitutes by other competitors, could not prove that, but for the sales made by The Allen Group, he would have made those sales. Thus, FRICKE stated at page 39 of

the BRIEF OF PLAINTIFFS-APPELLEES:

"HOLLYWOOD ACCESSORIES claims that ELCO, or WELLS prior to June 11, 1980, the date of the re-assignment of the '155 patent in suit back to FRICKE, would not have made the sales that HOLLYWOOD ACCESSORIES made since there were other competitive spark plug cleaners in the marketplace. [Applnts' Brief at p. 44]. To support its position, HOLLYWOOD ACCESSORIES relies upon the testimony of Plaintiff FRICKE; Andrew C. Miklos, WELLS' Sales Manager; and William Hyatt, HOLLYWOOD ACCESSORIES' own V.P. of Marketing. According to HOLLYWOOD ACCESSORIES, the combined testimony of these three witnesses confirms the existence of several spark plug cleaners including Custom Accessories, Allison, Bonapart (sold by Bonatrade), HOLLYWOOD ACCESSORIES, (referred to collectively as "The Imports")

and FRICKE'S Elco 1."

Rather than attempt to controvert Petitioners' clear evidence of competitive sales activities, FRICKE then argued that the competitive sales activities should be ignored because Petitioners failed to prove an absence of "acceptable substitutes". This argument also appears at page 39 of FRICKE'S BRIEF:

"The law requires that during the period of infringement, there be an absence of "acceptable non-infringing substitutes." Panduit Corp. v. Stahlin Bros. FibreWorks Inc., 575 F.2d 1152, 156, 197 USPQ 726 (6th Cir. 1978); Central Soya Co., Inc. v. Geo. A. Hormel & Co., 723 F.2d 1573, 1578, 220 USPQ 490 (Fed. Cir. 1983); Gyromat Corp. v. Champion Spark Plug Co., 735 F.2d 549, 552, 222 USPQ 4 (Fed. Cir. 1984); and BioRad Laboratories, Inc. v. Nicolet Instrument Corp., 739 F.2d 604,

616, 222 USPQ 654 (Fed. Cir. 1984). Thus, once it is established that there are substitutes in the marketplace, it must be determined that they are both "non-infringing" and "acceptable".

It will therefore be apparent that FRICKE brought the question of "acceptable substitutes" to the attention of this Court, not Petitioners. Petitioners did not argue that FRICKE had not "proven that there were no acceptable spark plug cleaners available", as mistakenly stated at page 7 of this Court's Opinion. In point of fact, Petitioners argued that FRICKE should not be allowed to rely on the "acceptable substitute" Panduit test because the trial court, after hearing the evidence, elected not to instruct the jury on the Panduit test. Rather, it was deemed appropriate in this case to instruct that the burden was on

FRICKE to prove that he would have secured some ascertainable part of the infringer's business if it had not been in business, and FRICKE did not object to this instruction. Specifically, at page 18 of the REPLY BRIEF OF APPELLANTS, Petitioners argued:

"It should further be noted that FRICKE-ELCO did not rely on Panduit before the jury. The jury was not instructed to make the Panduit test, as will be apparent by reference to the "lost profit" instruction [App. 3 0254] (See ADDENDUM hereto). FRICKE-ELCO did not object to such instruction. Accordingly, FRICKE-ELCO cannot contend the jury's verdict was based upon its determination of the facts which must be considered in making the Panduit test."

Petitioners approved this instruction in the trial court and finds no

fault with it now. The instruction required FRICKE to:

"ESTABLISH, FIRST, THAT THE OWNER OF THE PATENT WOULD HAVE SOLD THE INFRINGER'S CUSTOMERS THE POTENTIAL PRODUCT IF THE INFRINGER HAD NOT BEEN IN THE BUSINESS"

***

and required FRICKE to:

"PROVE HIS ABILITY TO SECURE AND FILL ALL OR AT LEAST SOME ASCERTAINABLE PART OF THE BUSINESS WHICH WENT TO THE INFRINGER." (Emphasis Added.)

This Court overlooked the fact that FRICKE failed to introduce evidence to establish that his licensee, WELLS, would have secured at least some ascertainable part of Petitioners' spark plug cleaner business had it not been in business. Petitioners justifiably relied on this failure of FRICKE to introduce such

evidence and Petitioners were not obligated to introduce evidence on the acceptable substitutes issue, and would now be severely prejudiced should the trial court's abuse of discretion in failing to grant a new trial stand uncorrected.

It should be noted, however, that undisputed evidence the competing spark plug cleaners sold by Bonatrade, Allison and Custom Accessories were acceptable substitutes for FRICKE'S '155 cleaner was before the jury. See page 13 of the REPLY OF APPELLANTS.

CONCLUSION

Unquestionably, this Court overlooked or misapprehended points of fact critical to a correct disposition of this case. As a result, Petitioners stand liable, and FRICKE has a windfall for lost profit damages on an unsupported verdict in excess of $625,000.00 not including

post-judgment interest, as compared to reasonable royalty damages approximating $130,000.00.

On this record it was not within the legal discretion of the trial court to deny Petitioners' motion for a new trial. It did not have the legal discretion to disregard the fact that there was no evidence whatsoever to support the lost damages award. This abuse of discretion resulted in substantial prejudice to Petitioners by a magnitude of about 5.44 (147/27). It would be intellectually dishonest to deem such an abuse insubstantial error.

Petitioners urge this court to order a rehearing of the partial new trial issue, or in the alternative, order a partial new trial on damages. Such partial new trial would only involve the application of the $.27 per spark plug cleaner

reasonable royalty found by the jury to the already-determined quantities of infringing spark plug cleaners sold.

Respectfully submitted,

FULWIDER PATTON RIEBER LEE & UTECHT

By_____

Francis A. Utecht
Attorneys for Appellants
The Allen Group Inc. &
Orion Industries Inc.

CERTIFICATE OF COUNSEL

FRANCIS A. UTECHT, the undersigned counsel for Petitioners, affirms that on the 26th day of February, 1986, the foregoing "PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT", was served upon Respondents by sending three copies by U.S. first class mail, postage prepaid, addressed to Richard E. Dick, Esq., LAW OFFICES OF DICK AND HARRIS, 200 West Madison Street, Suite 3200, Chicago, Illinois 60606, attorneys for Respondents.

ORIGINAL SIGNED
F. A. UTECHT

FRANCIS A. UTECHT, JR.
Attorney for Petitioners

Supreme Court, U.S.
FILED
MAR 21 1986
JOSEPH F. SPANIOL, JR.
CLERK

(2)

No. 85-1444

IN THE
SUPREME COURT OF THE UNITED STATES
October Term, 1985

THE ALLEN GROUP, INC., and
ORION INDUSTRIES, INC.,

Petitioners,

vs.

ROY A. FRICKE and
ELCO INTERNATIONAL, LTD.,

Respondents.

RESPONDENTS' BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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Abbreviations

'155 refers to U.S. Pat. No. 4,062,155

'144 refers to U.S. Pat. No. 4,203,141

"Pet. App. ___" refers to the particular Appendix portion of Petitioners' Petition

No. 85-1444

IN THE
SUPREME COURT OF THE UNITED STATES
October Term, 1985

THE ALLEN GROUP, INC., and
ORION INDUSTRIES, INC.,

Petitioners,

vs.

ROY A. FRICKE and
ELCO INTERNATIONAL, LTD.,

Respondents.

RESPONDENTS' BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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Attorneys for Respondents

RESPONDENTS' BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Respondents herein oppose the issuance of a Writ of Certiorari to review the Judgment of the United States Court of Appeals for the Federal Circuit entered August 1, 1985, affirming the Judgment of the United States District Court for the Central District of California.

Stripped of the unfounded accusations leveled at both the CAFC panel that decided the present case and the CAFC generally, it is clear that Petitioners have absolutely no real basis, either in fact or in law, to contend that the "lost profits" basis for computing damages was improperly applied in the present case with respect to its blatant and cavalier infringement of the patents at issue. Indeed, Petitioners simply have not nor

are capable of presenting the requisite "special and important reasons" for the granting of review in this case required by Rule 17 of this Court.

I. STATEMENT OF THE CASE

The present case involves two of Respondents' several patents covering particular kinds of spark plug cleaner products. With regard to one of these inventions, Petitioners, as well as virtually the entire automotive aftermarket industry, recognized the merits of Respondents' invention and corresponding product covered by U.S. Pat. No. 4,062,155 and blatantly copied it. This particular spark plug cleaner design clearly became the "standard" of the automobile aftermarket industry for such do-it-yourself spark plug cleaner products. A second, less successful design

of Respondents, covered by U.S. Patent No. 4,202,141, was also copied by Petitioners.

Between May 27, 1981 and June 21, 1981, the liability portion of the present action for willful and deliberate patent infringement was tried. The District Court reserved the ultimate determination of the issues of non-obviousness and validity of U.S. Pat. No. 4,062,155 and U.S. Pat. No. 4,202,141 (hereinafter referred to as the "'155" and "'141" patents respectively) to itself. It was agreed that the jury's verdict as to the validity of the patents at issue would be advisory.

The jury was fully instructed under the applicable law concerning the requisite Graham v. John Deere Co., 383 U.S. 1 (1966) obviousness analysis and the other

validity issues as well as the law of infringement. All parties agreed to the form and content of the Special Interrogatories submitted to the jury on the issues of validity and infringement. The jury rendered interrogatory responses finding both the '141 and '155 patents valid and infringed, willfully and deliberately, by the Petitioners.

The trial on the issue of damages was then conducted from July 8, 1981 to July 23, 1981. Respondents had presented substantial cost, pricing and capacity evidence, and further requested respective sums certain, as "lost profits" for infringement of the '155 and '141 patents--in amounts substantially in excess of those ultimately returned by the jury.

The jury was thoroughly instructed on the issue of patent infringement damages, as to the basis for selection and calculation of an award based upon either a "lost profits" theory or a "reasonable royalty" theory. Petitioners collaborated with the submission of jury instructions on the issue of "lost profits" calculation of damages and in addition, further stipulated to the form and content of the Special Interrogatories submitted to the jury on the damages issues. The jury, expressly found that Respondents were entitled to their "lost profits" and specifically, the conservative award of $1.32 per unit for infringement of the '155 patent and $1.47 per unit for infringement of the '141 patent.

On September 6, 1983, the District

Court issued its own Findings of Fact and Conclusions of Law on, among other things, the issue of the non-obviousness of the claimed subject matter of the '155 and '141 patents, which significantly altered the proposed post-trial findings and conclusions submitted by the parties.

On September 28, 1984, the District Court denied the numerous and extensive post-trial motions of Petitioners. Thereafter, on November 30, 1984, the District Court entered the SECOND AMENDED JUDGMENT (which deleted former Defendant K-MART, who had settled out of the case during the pendency of the post-trial motions) assessed damages solely against Petitioners based upon the number of respective infringing units sold only by Petitioners, and further assessed costs and prejudgment interest against Peti-

tioners.

Petitioners then appealed the final judgment of the District Court to the Court of Appeals for the Federal Circuit with respect to only the issues of:

1. Whether claims 2, 3, 6, 7 and 8 of Fricke Pat. No. 4,062,155 are invalid for obviousness under 35 U.S.C. § 103.

2. Whether the trial court abused its discretion by denying Defendants' Motion for New Trial based on the jury's holding that the proper measure of damages should be Plaintiffs' lost profits rather than a reasonable royalty.

Following extensive briefing and oral argument, on August 6, 1985 the Court of

Appeals for the Federal Circuit rendered its opinion affirming the final judgment of the U.S. District Court for the Central District of California holding that the '155 patent was valid and infringed as well as, affirming the propriety of the award of damages for infringement of the patents at issue on the basis of lost profits. (Pet. App. 2).

Petitioners then filed their Petition for Rehearing with the Court of Appeals, which was subsequently and properly denied in its entirety on December 2, 1985, with the exception of some clerical modifications. (Pet. App. 3).

Lacking any legal or factual basis whatsoever for the present request for granting of a Writ of Certiorari, Petitioners blatantly seek to transparently "bait" this Court into improperly

granting certiorari, to further delay the payment of "lost profits" damages for its willful and deliberate acts of patent infringement of Respondents' '155 and '141 patents--unlawful acts committed years ago and which have served to virtually destroy Respondents in the interim, both physically and financially.

II. PETITIONERS ARE NOT ENTITLED TO THIS COURT'S WRIT OF CERTIORARI

In the complete absence of any bona fide basis for issuance of this Court's Writ and grant of review, Petitioners instead attempt to ridicule and falsely impute incompetence to the Court of Appeals for the Federal Circuit while questioning its integrity, attempt to completely fabricate some sort of void or inconsistency in the CAFC'S case law, and attempt to falsely impute purported CAFC defiance against this Court's precedents

on the issue of "lost profits" patent infringement damages--where no such incompetence, void, inconsistency or defiance even remotely exists.

A. The CAFC Has Consistently Relied Upon and Applied the "Lost Profits" Law of this Court

Petitioners contend that this Court should grant certiorari in order to direct the CAFC to follow the applicable "lost profits" law developed by this Court, rather than to purportedly permit the CAFC to continue the development of its own supposedly confusing body of "lost profits" law. (Petitioners' Brief at p. 10). Yet, contrary to what Petitioners would have this Court believe, the CAFC opinions concerning the award of "lost profits" damages pursuant to 35 U.S.C. § 284 have consistently followed and are entirely in harmony with this

Court's paramount decision in Aro Mfg. Co. v. Convertible Replacement Co., 377 U.S. 476, 507 (1964) which held:

> They [lost profits damages] have been said to constitute "the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred." Yale Lock Mfg. Co. v. Sargent, 117 U.S. 536, 552 (1886). The question to be asked in determining damages is "how much had the Patent Holder and Licensee suffered by the infringement. And that question [is] primarily: had the Infringer not infringed, what would Patent Holder-Licensee have made?" Livesay Window Co. v. Livesay Indus-

tries, Inc., 251 F.2d 469, 471 (5th Cir. 1958).

Indeed, the CAFC has consistently followed this "lost profits" damages standard of this Court, while at most applying suggested, as opposed to mandatory, guidelines for determining whether the evidence submitted satisfies the aforementioned burden imposed upon the patentee to demonstrate what profits it would have made "but for" the infringer's sales.

For example, even prior to the creation of the CAFC, in a decision written by its present Chief Judge Howard Markey in Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152, 1156 (6th Cir. 1978), that Court expressly quoted and followed the above-quoted language of this Court's decision in Aro and has set

forth four supplemental considerations to assist in determining whether the evidence satisfied the Patentee's burden under both Aro and Livesay, towards recovering the profits on sales that it reasonably would have made, absent the infringement. These considerations include a showing of:

> (1) demand for the patented product, (2) absence of acceptable non-infringing substitutes, (3) manufacturing and marketing capability to exploit the demand, and (4) the amount of the profit the patent holder would have made.

Panduit Corp., 575 F.2d at 1156.

The CAFC'S decisions on the issue of "lost profits" damage awards have neither strayed from the above-quoted holdings of

Aro and Livesay nor have been in any way inconsistent, in contrast to what Petitioners would have this Court erroneously believe. Specifically, the CAFC in Lam, Inc. v. Johns-Manville Corp., 718 F.2d 1056 (Fed. Cir. 1983) explicitly quotes and follows Aro and Livesay with respect to the standard to be employed in awarding "lost profits" damages.

Consistent with the Aro, Livesay and Story Parchment Co. v. Paterson Parchment Paper Co., 282 U.S. 555, 563 (1931) decisions that preceded it, the CAFC in Lam (which Petitioners concede was properly determined) further stressed that in proving a patent owner's damages due to infringement, the patent owner's burden of proof is not an absolute one, but rather a burden of reasonable probability. Lam, Inc., 718 F.2d at 1065.

In the next CAFC "lost profits" decision dealing with the damages issue, Central Soya Co., Inc. v. Geo. A. Hormel & Co., 723 F.2d 1573 (Fed. Cir. 1983), the CAFC also expressly quoted and relied upon Aro and Livesay, as well as General Motors Corp. v. Devex Corp., 461 U.S. 648 (1983), while reviewing the District Court's use of the aforementioned Panduit factors as further considerations for evaluating whether the patentee had sustained its burden for recovering damages for infringement in the form of "lost profits". Central Soya Co., Inc., 723 F.2d at 1578.

The Court in Central Soya, noted that the particular facts of that case involved no acceptable substitutes whatsoever (infringing or otherwise) for the patented product, which accordingly

obviated the need for the patentee to prove that any competing products which were acceptable substitutes, were additionally infringing, with respect to the claims of the patent at issue. Id. at 1579.

The CAFC'S decision in Central Soya was most certainly not inconsistent with the aforementioned holdings of this Court on the issue of patent damages. Moreover, the Court in Central Soya specifically indicated that it would not reach the issue of any possible alternative guidelines for evaluating whether a patentee sustained its burden of showing that it was entitled to a "lost profits" damages award. Id. at n.5.

Consistent with the foregoing, in Gyromat Corp. v. Champion Spark Plug Co., 735 F.2d 549 (Fed. Cir. 1984) the CAFC

acknowledged that it had "implicitly approved as a method of proving damages" the Panduit test in Central Soya and merely examined the factual record of that particular case to see whether it supported the lower Court's award of "lost profits". Gyromat Corp., 735 F.2d at 552.

Accordingly, in the aforementioned three decisions of Lam, Central Soya and Gyromat, the CAFC recognized and followed this Court's overriding legal principle governing the award of "lost profits" damages of Aro and Livesay, and applied the supplemental Panduit four-pronged test to the particular facts of each case as one means of determining whether the evidence sustained the patentee's burden with respect to receiving a patent infringement damage award in the form of

"lost profits".

Similarly, in Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp., 739 F.2d 604 (Fed. Cir. 1984), where, as in the present case at bar, the particular "lost profits" jury instruction was not challenged, the CAFC confirmed that the Panduit standard is merely one possible way to establish entitlement to "lost profits" and not the exclusive standard for determining such entitlement. Bio-Rad Laboratories, Inc., 739 F.2d at n. *.

The Court in Bio-Rad further concluded that sufficient evidence was proffered by the patent owner on the basis of the Panduit factors, to establish at least a reasonable probability that in the absence of a defendant's infringement, the patent owner or exclusive licensee would have made the infringing sales so

as to sustain the patent owner's burden--a standard fully consistent with the aforementioned Aro and Livesay standards of this Court. Bio-Rad Laboratories, Inc., 739 F.2d at 616.

Accordingly, Petitioners' contention that as of Bio-Rad, neither the District Courts nor the Patent Bar "had any idea as to what tests would be used" to deal with the "lost profits" issue, is clearly disingenuous.

The Petitioners then turn to what they termed "the post Bio-Rad CAFC lost profits decisions" in their desperate attempt to conjure up a reviewable issue, where one clearly does not exist. In fact, in Weinar v. Rollform, Inc., 744 F.2d 797, 807 (Fed. Cir. 1984), the CAFC again relies upon this Court's prior patent infringement decisions such as

Yale Lock Mfg. Co. v. Sargent, 117 U.S. 536, 552 (1886) which itself was relied upon in Aro, and which provides:

> "The measure [of patent infringement damages], when its calculation is possible, is an amount needed to return the patent owner to the position it would have occupied had there been no infringement."

Moreover, the Court in Weinar further found that there was sufficient evidentiary testimony interpretable by the jury as satisfying the Panduit factors (cited with approval in Central Soya) noting that such a four-pronged test is not the exclusive way of evaluating whether the patentee has satisfied its burden with respect to a "lost profits" damage award.

Likewise, in Paper Converting Machine

Co. v. Magna-Graphics Corp., 745 F.2d 11, 21 (Fed. Cir. 1984) the CAFC acknowledged that the Panduit test (as adopted in Central Soya), is one possible test or guideline for determining whether the patent holder can satisfy the burden set forth in Aro, to in turn reasonably show the profit that the patent holder would have made, but for the infringement--thereby being fully consistent with both the prior CAFC decisions on this issue, as well as the holdings of this Court on the subject.

The CAFC decision in King Instrument Corp. v. Otari Corp., 767 F.2d 853 (Fed. Cir. 1985) once again reemphasized the fact that the four-part Panduit test is merely one method of calculating "lost profits", while also stressing that under controlling principles of equity, any

risk of uncertainty in connection with a damage award computation must be cast upon the wrongdoer rather than upon the injured party. King Instrument Corp., 767 F.2d at 864.

Most significantly, in a decision conveniently omitted by Petitioners, Kori Corp. v. Wilco Marsh Buggies & Draglines, 761 F.2d 649 (Fed. Cir. 1985), the CAFC explicitly quotes and relies upon this Court's decision in Aro with respect to the controlling standard for patent infringement damages which is, "had the Infringer not infringed, what would [the] Patent Holder-Licensee have made?" Aro Mfg. Co., 377 U.S. at 507; General Motors Corp. v. Devex Corp., 461 U.S. 648 (1983).

Finally, in Yarway Corp. v. Eur-Control U.S.A., Inc. et al., 775 F.2d 268,

275 (Fed. Cir. 1985), the CAFC further concluded that the record in that case, supported the District Court Judge's findings awarding a "lost profits" award on the basis of the four Panduit factors cited with approval in Central Soya, so as to sustain the patentee's burden to prove that it was entitled to such an award. Specifically, the Court in Yarway found that the evidentiary records supported the patent holder's burden of demonstrating the absence of acceptable non-infringing substitutes. Yarway Corp., 775 F.2d at 276.

Accordingly, in light of the unwaivering consistency and reliance upon this Court's overriding "lost profits" damages standard as originally set forth in Aro, and the consistent non-exclusive application of the Panduit standard for

evaluating whether the patentee or patent holder has satisfied its burden with respect to that test, it simply cannot be said that any inconsistency, deviation from this Court's holdings, or any "void" in the controlling case law, exists with respect to "lost profits" damage awards in patent infringement cases. Clearly, Petitioners' cries of "consternation" among members of the judiciary and the patent bar are utter fabrications.

B. The CAFC Properly Affirmed the Use of "Lost Profits" as the Measure of Damages

Petitioners further erroneously contend that the CAFC committed what it termed "three incredible factual errors" (Petition p. 4) in affirming the use of "lost profits" as the measure of damages for Petitioners' acts of willful and

deliberate patent infringement in the case at bar. Specifically, Petitioners contend that:

* The CAFC panel initially overlooked the '141 patent in its opinion;

* The Respondents made no attempt whatsoever to prove that they would have sold the infringing spark plug cleaner sold by Petitioners so as to entitle Respondents to "lost profits"; and

* The identity of parties was miapprehended. (Petition at p. 5).

In so contending, Petitioners' arguments border on sophistry.

C. The CAFC Properly Denied Petitioners' Petition for Rehearing

Petitioners no longer contend that the District Court erred in concluding that

the claims of the '155 patent at issue were not invalid under 35 U.S.C. § 103 or that the relevant factual findings related thereto were clearly erroneous. Neither were Petitioners "denied their day in Court" with respect to their contention that the District Court abused its discretion by denying their Motion for New Trial on the issue of whether the proper measure of damages was a "reasonably royalty" rather than "lost profits."

The CAFC properly concluded that Petitioners did not sustain their burden of showing that the District Court's denial of their motion for a new trial was an abuse of discretion. As the CAFC properly concluded in denying Petitioners' Petition for Rehearing, sufficient evidence was presented for the jury's consi-

deration, with respect to such "lost profits" damages factors, such as Respondents' capability to manufacture and sell the infringing units, the costs involved with and the reasonable selling prices for both the '155 and '141 spark plug cleaners during the period at issue, the prior sales of same by Respondents, their prior exclusive licensee and the infringers, as well as the optimal profits recouped by each.

Specifically, as emphasized on appeal by Respondents, the jury was provided with competent and largely unrebutted evidence from which it deduced the lost profits sum of $1.32 per unit for infringement of the '155 patent, and $1.47 for lost profits on infringement of the '141 patent. Clearly, the jury was exposed to many witnesses and substantial

documentary evidence from all parties, concerning the factors of price, cost and profitability of the various portable spark plug cleaners at issue.

For instance, testimony included the manufacturing costs of producing the '155 spark plug cleaners during the years 1978, 1979 and 1980. In addition, Plaintiffs submitted evidence regarding the selling price of such genuine '155 units during the period in question. Moreover, other evidence submitted including changes in the selling prices for the genuine '155 units sold between 1978 and 1980; the variances in the costs of manufacturing the genuine '155 units in 1978 through 1980; the royalty payments paid to Respondents by the exclusive licensee of the '155 patent during the period in question; the sales commissions paid upon

the sale of such products, as well as testimony regarding the price errosion created by increased competition from the infringers such as Petitioners.

Likewise, Respondents testified at length concerning their manufacturing capabilities, costs, profits and expenses with respect to the '141 units, as well. All of the foregoing evidence provided ample evidence in the record to support the respective $1.32 and $1.47 lost profit per unit figures returned by the jury, which were in fact, much lower than those requested by Plaintiffs at trial, and anything but the product of passion or prejudice.

As the Court of Appeals further properly observed, Petitioners neither objected to nor otherwise contested the instructions, given to the jury for the

determination of damages or the form of the special interrogatories which properly permitted disclosure of lost profit per unit figures with respect to each of the '155 and '141 spark plug cleaners. Accordingly, Petitioners are hardly in any position whatsoever to now argue any sort of abuse of discretion on the part of the District Court or improper denial of their Petition for Rehearing on the part of the Court of Appeals.

Despite Petitioners' attempts to make it appear otherwise, the evidentiary record was replete with requisite, though hotly contested information, indeed "different sets of facts" from each party, relating to the separate and different computations required to be performed by the jury to arrive at the different lost

profit per unit figures returned with respect to the '155 patent and the '141 patent.

While the Court of Appeals' decision initially neglected to explicitly mention the '141 patent, due to the fact that Petitioners' appeal was devoted predominantly to the validity of only the '155 patent, its denial of the Petition for Rehearing, considered and dismissed Petitioners' contentions on the damages issue, while acknowledging that the basis for computing the lost profit amounts for the '155 unit and the '141 unit involved different facts by recognizing, by way of its modification of its December 2nd opinion, that Respondents alone sold the '141 patent while their exclusive licensee sold the genuine '155 unit during the years 1978 through 1980. (Pet.

App. 3).

Respondents have likewise demonstrated that they would have sold the infringing spark plug cleaners sold by Petitioners in the absence of infringement of the patents in question, by demonstrating, among other things, the additional capacity to build and sell at least the number of infringing units.

Indeed, as the Court of Appeals also properly recognized, Respondents repeatedly demonstrated at trial that any supposedly competing "acceptable substitutes" pointed to by Petitioners, were nothing more than additional blatant infringers, and it was demonstrated at trial that the '141 unit of Respondents', was <u>not</u> an acceptable substitute for the '155 unit. Indeed, it was also shown at trial that the supposed competing spark

plug cleaners in the marketplace, were nothing more than "duplicates" of the patented '155 unit, many being struck off of the exact same molds in the Orient that Petitioners utilized to manufacture their infringing units.

Hence, even though the Court of Appeals observed in passing that, depending on the facts of a case, it is not always necessary to require the patentee to establish that any supposed acceptable substitute was an infringing product, in the present case, Respondents more than satisfied their burden of demonstrating the absence of acceptable non-infringing substitutes for its '155 and '141 units in the marketplace, so as to justify the "lost profits" damage award of the jury and the District Court, which was affirmed by the Court of Appeals.

Moreover, as the Court of Appeals significantly observed, since Petitioners did not take or preserve any sort of objection with respect to the instructions presented to the jury on the damages issue, "it ill behooves" Respondents at this late date, to again argue that Petitioners somehow failed to sustain their burden of demonstrating the lack of acceptable substitutes.

Neither is there any merit whatsoever to Petitioners' contention that the CAFC somehow "misapprehended the identity of parties" and imposed the burden of proof with respect to establishing the elements of "lost profits" on Petitioners. Clearly, the CAFC'S opinion did nothing of the sort, but instead merely stated that the Petitioners had argued that Respondents had purportedly failed to

sustain their burden of demonstrating that there were no acceptable substitute spark plug cleaners available. There was simply never any shift of the requisite burden to Petitioners. Neither did Respondents ever argue that it was Petitioners' burden to establish that there were "acceptable substitutes". On the contrary, Respondents consistently argued that the evidence presented at trial more than satisfied its burden of showing that there were no acceptable non-infringing substitute spark plug cleaners in the marketplace at the time of the infringement, with respect to the patents at issue. Indeed, as the Court of Appeals properly concluded, Petitioners failed to demonstrate that the District Court abused its discretion in denying their Motion for a New Trial on the issue of

whether the proper measure of damages was a "reasonable royalty" rather than "lost profits".

III. CONCLUSION

For the reasons set forth hereinabove the Petition for Writ of Certiorari must be denied in its entirety, since it hopelessly fails to set forth any compelling reasons whatsoever for the granting of such review. Instead the Petition only attempts to fabricate purported factual errors, incompetency, failure to follow Supreme Court precedent and case law deficiencies on the part of the Court of

Appeals for the Federal Circuit, where, in fact, none exist.

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Respectfully submitted,

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